

WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

WASHINGTON, D. C.

ORDER NO. 1002

IN THE MATTER OF:

Served December 22, 1969

Application of D. C. Transit)	Application No. 594
System, Inc., for Permission)	
to Issue a Promissory Note)	
and Deed of Trust to Secure)	
Same.)	

D. C. Transit System, Inc., ("Transit") has applied for permission to issue a promissory note to the D. C. Transit Employees' Retirement Trust Agreement and Plan ("Plan"). Securing this note will be a deed of trust covering two parcels of real property owned by Transit. These properties are the Brookland Garage at 10th and Michigan Avenue, N. E. and the Eastern Garage, located at 14th and East Capitol Streets.

This application, to issue a promissory note in the amount of \$2,320,502.30, will convert from open account status to a secured note, indebtedness of the company to its Employees' Retirement and Trust Agreement and Plan which was incurred in the normal course of Transit's business under the terms of an agreement with Division 689 of the Amalgamated Transit Union, AFL-CIO. The note is dated October 30, 1969, and bears interest at the rate of seven and a half percent (7-1/2%), payable quarterly beginning January 1, 1970. The principal sum of the note is payable at any time on or before October 30, 1979. It is noted that the principal sum consists of \$2,235,520.27 covering unpaid employer contributions to the Employees' Retirement Plan through September 30, 1969, and \$84,982.03 for interest on the unpaid contributions which would have accrued if such contributions had been timely paid to and invested by the Plan at the rate of 6.9% interest per annum.

Notice of the application has been published in a newspaper of general circulation and no one has sought an opportunity for a hearing.

In Transit's first rate case before this Commission, decided in April 1963, the Commission admonished Transit to look to its high debt-equity ratio and to increase its equity in order to introduce some financial stability. In succeeding rate cases before this Commission, the worsening debt-equity ratio was persistently studied and reluctantly recognized as an attribute of a succession of loss years and serious cash flow problems. Ordinarily, the issuance of long term debt by Transit, with its extremely high debt-equity ratio, would be considered extremely unwise, aggravating an existing adverse debt-equity ratio, and adding \$174,000 to Transit's annual interest bill. But, these are unusual circumstances. Transit here converts a current liability to another category, viz., long-term debt. This debt was built up over a period of fourteen months, basically due to management's choice of paying what it considered more urgent debts with its limited amount of cash resources as compared to currently maturing obligations of the corporation. Transit's Annual Report for 1968 showed a net loss of \$1,710,787; for the year 1967, the net loss was \$256,050. Losses of this magnitude weaken any enterprise, lessening its ability to pay its basic operating costs. In its proper context then, the present application resolves itself into a fortuitous arrangement permitting Transit to liquidate a current debt by a long-term loan which, given the present tight money situation, could not otherwise have been resolved.

The Commission takes note of the fact that subject application was filed with the Interstate Commerce Commission on November 10, 1969, and approved by the Finance Board of the Interstate Commerce Commission on November 26, 1969.

The Commission is of the opinion and finds that the issuance of the promissory note and the deed of trust as security therefor is not contrary to the public interest and that permission should be granted authorizing the execution of said note and deed of trust.

THEREFORE, IT IS ORDERED:

1. That D. C. Transit System, Inc., be, and it is hereby, authorized to issue a promissory note to the D. C. Transit Employees' Retirement Trust Agreement and Plan in the amount of \$2,320,502.30, specifying interest at the rate of 7.5%, the interest being payable quarterly beginning January 1, 1970, and the principal amount being payable at any time on or before October 30, 1979, and to execute a deed of trust covering real property at 10th and Michigan Avenue, N. E., and at 14th and East Capitol Streets as security for the promissory note.


2. That any costs incurred in connection with subject financing be charged below-the-line as non-operating costs.

3. That upon execution of the promissory note and the deed of trust herein authorized, copies thereof shall be filed with this Commission.

4. That within thirty (30) days after the payment and cancellation of the promissory note and satisfaction of the deed of trust herein authorized, D. C. Transit System, Inc., shall advise the Commission of payment and cancellation of the deed of trust.

5. That this Order become effective on date of issuance.

BY DIRECTION OF THE COMMISSION:



MELVIN E. LEWIS
Executive Director

